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AUTHOR Verstegen, Deborah
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ABSTRACT

The cost of providing an educational program is higher for rural, small schools and districts than for others. Nevertheless, recent studies suggest that small schools and districts may be a more efficient investment than large schools because the "learning value per unit of expenditure" seems to be greater there. This new idea expands the traditional concept of outcome to include morale, achievement, curriculum, and positive attitudes towards learning. This digest examines state strategies for meeting the unique financing needs of rural, small schools and districts. Thirty states currently include a factor in their school finance formula to compensate for the additional costs of rural, small schools or districts. Ten states distribute additional assistance based on small school district or school enrollment. Six states provide assistance to isolated schools or school districts based on sparsity of population per square mile, miles between schools, or time required to reach the next school by bus. Nine states provide additional revenue based on a combination of small size thresholds and isolation factors. Two states provide additional aid to small schools or districts based on a combination of size, isolation, and tax effort. Other provisions for rural, small schools include additional state aid for interdistrict cooperative arrangements, a larger "mil deduction" for some rural districts, and transportation allotments. (SV)

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ERIC DIGEST

Clearinghouse on Rural Education and Small Schools

August 1991

Funding Rural, Small Schools: Strategies at the Statehouse

Digest EDO-RC-91-10

EARLY EFFORTS to achieve greater efficiency in schooling focused on educating the largest number of students at the lowest possible cost. Research about schools, following industrial models, stressed the phenomenon of "economies of scale." If industry could boom as a result of such economies, why could not education benefit in similar ways? Subsequently, aggressive state policy initiatives sought to capture similar benefits for education through consolidating schools and districts.

Today, by contrast, more attention is being given to what education dollars produce in terms of morale, student achievement, curriculum, and positive attitudes towards learning. This change in outlook is driven by a growing body of research that focuses on the outcomes that dollars buy (e.g., Fox, 1981; Goodlad, 1984; Hawkins, 1985; Monk, 1990; Plecki, 1991; Turner, Camilli, Kroc, & Hoover, 1986). In particular, recent studies suggest that small schools and districts may be a more efficient investment than large schools, because the learning value per unit of expenditure seems to be higher there (Plecki, 1991; Walberg & Fowler, 1987).

The new findings represent a dilemma for lawmakers, educators, and communities. This issue especially concerns rural areas, since schools and districts there tend to be smaller than their urban or suburban counterparts. This Digest examines state strategies for meeting the unique financing needs of rural, small schools and districts. To what extent do states actually provide additional support for rural and small schools? On what basis is this support distributed?

Rural and small school districts' finance needs

Financing rural education is an issue of broad interest. **Fifty-one percent** of all schools in the United States are located in small towns or rural areas; nearly **40 percent** of students nationwide attend either small-town or rural schools. **Twenty-three** states have 50 percent or more of their students in these categories. **Thirty-seven** states have more than one third of their students attending schools in these localities (Johnson, 1989).

One of the driving goals of state educational systems is to operate efficient and effective schools. But if the cost of providing an educational program is higher for rural, small schools and districts, then—all else being equal—they will be less able than other schools and districts to provide an adequate program. Without additional state assistance rural, small districts have two choices. They must either (1) spend more out of local resources to provide a basic educational program or (2) be satisfied with more limited educational offerings (Monk, 1982). Because many of these districts are poor, however, the first option is not available to them. For them, fiscal freewill is a cruel illusion.

State strategies for financing rural schools and districts

Thirty states currently include a factor in their school finance formula to compensate for additional costs necessary to mount an educational program in rural, small schools or districts:

- Ten states distribute funding based on school or district **size**.
- Six states provide aid for **sparsely populated** or **isolated districts**.
- Nine states award aid based on a combination of **size** and **isolation** of the school or district.
- Two states use **size, sparsity, and tax effort** for allocation purposes.
- Three states provide funding based on **other** characteristics, such as cooperative arrangements (Verstegen, 1990).

Size. Among these ten states, the majority base funding on school district enrollments. Generally, eligibility for additional assistance is based on specific numerical thresholds set for schools, school districts, or both. Districts or schools with enrollments below these thresholds are eligible for assistance beyond basic state funding guarantees. Currently, thresholds for elementary school size tend to be about two to three times smaller than the required number of students for additional aid purposes in high schools. The median threshold reported in 1989-90 was 138 students for elementary schools and 428 for secondary schools. For school districts, the median was 1,500.

Six states provide extra funding to districts based on small **school size.** Louisiana provides aid to all schools with fewer than 438 students. Montana, Nevada, New Mexico, and North Dakota provide differential support levels based on separate population thresholds for elementary, junior high, and high schools. For example, in Montana, small schools receive help based on a sliding scale of support, until a threshold of 300 students in elementary schools and 600 students in high schools is reached. When schools reach these thresholds, supplemental aid stops. New Mexico schools with fewer than 200 elementary or secondary students get supplementary assistance. In North Dakota, high schools with 550 or fewer pupils, and with small or one-teacher elementary schools generate additional funds. Among the other three states who fund on the basis of small school size, Ohio gives additional support to three small Lake Erie Island schools. In Virginia, additional aid goes to small schools, based on guarantees of **minimum class size.**

Four states—Kansas, Oklahoma, Colorado, and New Mexico—provide aid based on an overall school **district** enrollment. For example, in Oklahoma, funding is awarded to school districts with fewer than 500 students. Colorado supplements funds for districts

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with enrollments of fewer than 150 funded students. New Mexico allots additional aid to small schools in districts with 4,000 or fewer students in average daily membership (ADM).

Population sparsity and isolation. Of these six states, two—North Carolina and Idaho—provide assistance to isolated **school** populations. Four states—Florida, Georgia, Nebraska, and West Virginia—provide funding to isolated school **districts.** Most states determine isolation based on the distance to the next school or district, the time required to reach the next school by bus (to account for barriers of terrain), or the sparsity of population per square mile.

Nebraska, for example, uses the number of persons per square mile to help determine equalization funding. The percentage of 10%, 20%, 30%, or 40% is added to the total basic need calculation for districts that have 4, 3, 2, or 1 person per square mile. West Virginia has a new provision in its finance formula to provide additional aid to districts based on the sparsity of the population and bus miles driven.

Small size and isolation, combined. Nine states provide additional revenue based on a combination of small size thresholds **and** isolation factors. Five provide aid based on school district size and isolation, whereas four base added funds on schools judged to be small and "necessary."

Small and isolated **districts** receive additional support in Alaska, Arizona, Maine, Minnesota, and Texas. In Minnesota, for example, isolated districts with small student populations receive additional state aid (20 or more miles away from the next nearest school and with fewer than 140 students in elementary schools [K-6] or fewer than 400 in secondary schools [7-12]). Texas uses a two-tiered criterion of size combined with an isolation factor. Districts over 300 square miles—and with average daily attendance (ADA) below 1,600—get supplements, as do districts with ADA under 130.

Small, isolated **schools** drive additional revenue to districts in California, Oregon, Utah, and Washington. In California districts with fewer than 2,501 ADA and which contain "necessary" small schools receive supplements. Washington provides assistance for "remote and necessary small schools" and for elementary schools with fewer than 300 students, depending on grade level and required pupil-staff ratios. **Necessary existent** small schools in Oregon below 165 ADM for elementary, 389 ADM for junior high, and 722 ADM for high schools get supplements if they are 10 miles from the next nearest elementary school.

Size, sparsity, and tax effort. Arkansas and Pennsylvania provide additional aid to small schools or districts based on three factors: size, isolation, and tax effort. As a condition of receiving additional assistance in both of these states, school districts must be providing a tax effort at least equal to the statewide average.

Cooperative arrangements and other provisions. Only one state reported additional assistance to school districts based on cooperative arrangements. Iowa reported providing state aid for 0.5 percent of the time a pupil is instructed by a teacher employed by another school district or jointly employed. If a substantial number of pupils share more than one class or teacher, the weighting is reduced to 0.1 percent.

Two states reported "other" significant provisions for rural, small schools. Missouri provides assistance based on the average student count in the previous three years. South Dakota reports a larger "mill deduction" for some rural districts. Several states report factors such as this under "declining enrollment," but such provisions are not specific to rural, small schools or districts. They provide additional aid when enrollments fall. Finally, transportation allotments and other factors can also provide limited additional revenue to rural areas that are small, isolated, or sparsely populated.

Critical questions

The debate about financing rural schools and districts will, no doubt, continue. Five critical questions will figure in the debate. First, what actual levels of support are needed to adjust for additional costs in rural, small schools and districts? Second, is educational equity threatened if states fail to provide sufficient additional funds to rural areas? Third, how should state agencies measure local ability to pay? Fourth, what conceptions and measures can specify the level of "rural overburden" that affects local tax systems? Finally, what options are available to enhance curriculum in small, rural schools and districts?

Compensating rural, small schools for high operating costs does require extra funding. But if small schools seem to offer environments more conducive to learning than those in large schools, then the investment makes sense. Moreover, the total cost in state finance formulas is insignificant when compared to the high cost of neglecting the needs of the 40 percent of the nation's children who attend schools in rural areas.

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Prepared by Deborah Verstegen, University of Virginia, Charlottesville, VA.

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